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NOTICE OF CONFIDENTIALITY RIGHTS: IF YOU ARE A NATURAL PERSON YOU MAY REMOVE OR STRIKE ANY OF THE FOLLOWING INFORMATION FROM THIS INSTRUMENT BEFORE IT IS FILED FOR RECORD IN THE PUBLIC RECORDS: YOUR SOCIAL SECURITY NUMBER OR YOUR DRIVERS LICENSE NUMBER.

**OIL AND GAS LEASE**  
**(Paid-Up)**

This Oil and Gas Lease ("Lease") is made and effective this 7<sup>th</sup> day of July, 2008, between **CHARLES E. GRAY and wife, LINDA GRAY** (herein "Lessor," whether one or more) whose address is 1203 Vera Ln, Kennedale Texas 76060, and **CIRCLE ENERGY**, whose address is 2400 North Highway 287, Suite 106, Mansfield, Texas 76063 ("Lessee").

**Lot twenty (20) in Block one (1) of Murry Hill Estates, an Addition to the City of Kennedale, Tarrant County, Texas according to plat recorded in Volume 8739, Page 402;**

1. Lessor, in consideration of One and no/100 Dollar (\$1.00) and other good and valuable consideration in hand paid, the royalties herein provided, and the agreements of Lessee herein contained, hereby grants, leases and lets exclusively unto Lessee for the purpose of investigating, conducting seismic operations, exploring, drilling for and producing oil and gas (including any other liquid and gaseous hydrocarbons that are produced as a compound of oil or gas through the bore hole of an oil and gas well), and engaging in any activity reasonably necessary to produce, save, take care of, treat, transport, and own oil and gas, subject to the restrictions set forth in the Lease, the land in Tarrant County, Texas, described in Exhibit "A" attached hereto, herein referred to as "Lease Premises," or "Land," to wit:

**See attached Exhibit "A" for Land Description**

This Lease also covers and includes all Land owned or claimed by Lessor adjacent or contiguous to the Land particularly described above, although not included within the boundaries of the Land particularly described. For all purposes of calculating any payments hereunder, the above-described Land (the "Lease Premises") shall be treated as comprising 0.504 acres, whether actually containing more or less. From time to time, Lessee may determine that all, or some part, of the Lease Premises should be more specifically described, and in such event, Lessor agrees to execute any substitute Lease, or correction instrument, necessary to properly describe and identify the Lease Premises.

**2. Lease Term.**

**(a) Primary Term.**

Without reference to the commencement, prosecution, or cessation at any time of drilling or other development operations, and/or to the discovery, development or cessation at any time of production of oil or gas, and without further payments, other than the royalties herein provided, and notwithstanding anything else herein contained to the contrary, this Lease shall be for a term of Twenty-Four(24) months (the "Primary Term") from the date hereof, and so long thereafter as oil or gas, individually or collectively, is produced in paying quantities from the Lease Premises, or lands pooled therewith, and royalties are paid as herein provided, or as long as this Lease is continued in effect as otherwise provided herein.

**(b) Shut-In Well.**

If, at the end of the Primary Term, or at any time or times thereafter, there is located on the Lease Premises, or on land pooled therewith, a well capable of producing gas in paying quantities, but the gas is not being sold due to lack of market or Force Majeure, and this Lease is not being otherwise maintained in force, Lessee shall pay or tender by check or draft of Lessee to Lessor's depository set forth below or mailed via U.S. Mail in a stamped envelope to the Lessor at the last address known to Lessee, as royalty, at annual intervals, a sum of five Dollars (\$5.00) per net acre to the parties who at the time of such payment would be entitled to receive royalties hereunder and if such payment is made or tendered, it will be considered that gas is being produced from the Lease Premises in paying quantities within the meaning of Paragraph 2(a) of this Lease during any period for which such payment is made. . In the event Lessee elects to

maintain this Lease in force and effect by the payment of shut-in gas royalty as herein provided, the first of such payments shall be made no later than Ninety (90) days after the date the well is shut-in or the Lease is not otherwise maintained, whichever is later, and subsequent payments will be due annually thereafter (if this Lease is not being otherwise maintained in force) on the anniversary date of the period for which the prior payment was made. Upon proper and timely payment or tender of royalty under this paragraph, it will be considered that gas is being produced under Paragraph 2(a) of this Lease. Notwithstanding the foregoing, however, the payment of shut-in royalties under this Paragraph 2(b) shall not maintain this Lease in force and effect for a period in excess of one (1) consecutive year.

**(c) Continuous Operations.**

If at the end of the Primary Term oil or gas in paying quantities is not being produced on the Lease Premises, or land pooled therewith, but Lessee is then engaged in drilling or reworking operations thereon, or if prior to the discovery and production of oil or gas on the Lease Premises, or land pooled therewith, Lessee should drill a dry hole or holes thereon, or if after the discovery and production of oil or gas on the Lease Premises, or land pooled therewith, the production thereof should cease for any cause, and this Lease is not being otherwise maintained in force, this Lease shall nonetheless remain in force so long as operations, whether on the same well or on different wells successively are prosecuted with due diligence with no cessation of operations of more than sixty (60) consecutive days or any total of one hundred and eighty (180) non-consecutive days during any one (1) year period, and if they result in production of oil or gas, so long thereafter as oil or gas is produced in paying quantities from the Lease Premises, or land pooled therewith, subject to the other provisions of this Lease.

**(d) Continuous Development.**

During and after the end of the Primary Term, Lessee shall continuously develop the Lease Premises (or any land pooled therewith), with no more than ninety (90) days elapsing between the completion or abandonment of one well and the commencement of operations on the next well; provided however, if this Lease is then being maintained in force solely by the payment of shut-in royalty under Paragraph 2(b) above, Lessee shall not be obligated to conduct continuous development operations until such time as the shut-in gas well is put into production (subject in all respects to Paragraph 2(b)). In the continuous development program, Lessor shall be entitled to accumulate and later use time saved between wells (that is, where the elapsed time between wells is less than ninety (90) days); provided, however, that it shall be Lessee's duty to inform Lessor of the amount of time saved and to advise Lessor prior to using the accumulated time that Lessee plans to use the same. Failure to continuously develop in accordance with this Paragraph 2(d) shall result in the termination of this Lease, save and except as to any acreage in the Lease Premises in as nearly the form of a square as possible around each productive well or wells (except for horizontal wells for which the acreage retained may be in a form other than a square) previously completed by Lessee on the Lease Premises (whether or not such well is currently producing). The retained acreage ("Retained Tract") around each well may not exceed Forty (40) acres; provided, however, if units larger than the foregoing are permitted or prescribed by the rules or regulations of the Railroad Commission of Texas, or other lawful authority having jurisdiction of such matters, for the drilling or operation of a well at a regular location or for obtaining maximum allowable from any well to be drilled or already drilled, then any such Retained Tract may be established or enlarged to conform to the size allowed by such rules or regulations. This Lease shall be preserved in effect as to the Retained Tract only to a depth of One Hundred feet (100') below the stratigraphic equivalent of the base of the deepest formation drilled on each such Retained Tract. Lessee agrees to execute and deliver to Lessor a release in recordable form evidencing the termination of the Lease as to the acreage and depth not retained under this Lease as above determined. After the end of the Continuous Development Program, Lessee must file in the county records, a document, and furnish to Lessor a copy thereof, designating each Retained Tract and the retained depths thereunder, and releasing all other acreage and depths. A gas well that thereafter becomes an oil well will hold only the acreage permitted for an oil well, and Lessee must file in the county records a re-designation of the tract as an oil well tract. Notwithstanding anything to the contrary stated herein, a Retained Tract for a horizontal well may include (i) the amount of acreage allowed for obtaining a permit to drill a well under the spacing and density provisions in the applicable field or statewide rules of the

Railroad Commission of Texas, or other lawful authority having jurisdiction of such matters, for a vertical wellbore, plus the additional acreage listed in the tables in Rule 86, or (ii) the amount of acreage allowed for obtaining a full production allowable under the applicable field or statewide rules of the Railroad Commission of Texas, or other lawful authority having jurisdiction of such matters, for a vertical wellbore, plus the additional acreage listed in the tables in Statewide Rule 86 of the Texas Railroad Commission. As used in this Lease, the term "horizontal well" means one that meets the definition of a "horizontal drainhole well" under Statewide Rule 86 of the Texas Railroad Commission, and a "vertical well" is a well that is not a horizontal well. When production in paying quantities ceases from any Retained Tract hereunder, and the Lease is not otherwise maintained under the provisions hereof as to such Retained Tract, the Lease shall terminate as to such Retained Tract and Lessee shall execute and deliver to Lessor a release in recordable form, releasing the acreage in the Retained Tract. Notwithstanding the termination of this Lease as to any acreage in the Lease Premises under this Paragraph 2(d), Lessee shall, subject to the surface use restrictions set forth herein, retain the right of access to any released acreage as reasonably necessary to drill, develop, produce and operate any Retained Tract or Tracts and to process, transport and market any production therefrom. No release of acreage covered by the Lease will cause Lessee to relocate or rebuild any facilities or pipelines located on the released acreage and being used for the benefit of the Retained Tracts. Lessee shall have the right to use such released acreage without charge and shall have the right of access thereto.

(e) [Reserved]

### 3. Production Royalty.

Lessee shall pay Lessor a royalty of twenty five percent (25%) (the "Specified Interest") as follows:

- (a) On oil and other hydrocarbons (including condensate) which are produced at the well in liquid form by ordinary production methods, the Specified Interest of that produced and saved from, or attributable to, the Lease Premises, to be delivered free of cost at the well or to the credit of Lessor into the pipeline to which the wells may be connected. All oil and liquid hydrocarbons shall be measured in tanks situated on land pooled with the Lease Premises, and no liquid meters shall be used for measurement without Lessor's consent. Unless Lessor is taking its oil in kind, Lessee may from time to time purchase any royalty oil and liquid hydrocarbons in its possession, paying to Lessor the then-current fair market price therefore prevailing for the field where produced on the date of purchase.
- (b) On gas, including casinghead gas, and other vaporous or gaseous substances produced and saved from or attributable to the Lease Premises,
  - (1) In the event that gas, including casinghead gas, is used for the manufacture of gasoline or the extraction of other products therefrom in an absorption or extraction plant owned operated in whole or in part by Lessee or any affiliated company of Lessee (it being understood that nothing contained herein shall require Lessee to process such gas), then in lieu of the royalties in Paragraphs 3 (b)(2) and (3) below, the Specified Interest of the proceeds received by Lessee for the gasoline and/or other petroleum products manufactured or extracted therefrom which are saved and marketed, after deducting a fair and reasonable cost for transporting, extracting, manufacturing the gasoline and other products, and the Specified Interest of the proceeds received by Lessee from an arm's-length sale of the residue gas sold or used by Lessee in operations not connected with the Lease Premises or lands pooled therewith. Prior to the use of gas for such manufacture or extraction operation, Lessee shall install and thereafter use drip, separator or similar equipment (three-phase separator) on the flowline of each well capable of producing liquid hydrocarbons in paying quantities, and no deduction for extraction costs shall be made for liquid hydrocarbons recovered through the use of this equipment.
  - (2) In the event Lessee sells gas for use in the manufacture of gasoline or extraction of other petroleum products, the Specified Interest of the net proceeds received by Lessee from the sale of such gas computed at the well.
  - (3) In all other cases when gas is sold on or off the Lease Premises, the Specified Interest of the net proceeds received by Lessee from an arm's-length sale of the gas computed at the well.

- (4) Except as expressly provided above in Paragraph 3(b)(1), Lessor's royalty may not be charged directly, or indirectly, with any of the expenses of production, gathering, dehydration, compression, processing, or treating the gas produced from the Land that are incurred prior to the inlet of a gas pipeline evacuating gas from the Lease Premises.
- (c) Lessor shall be responsible for and shall bear Lessor's share of all ad valorem and severance taxes.
- (d) If Lessee obtains production of oil or gas from the Lease Premises, or land pooled therewith, Lessee agrees to disburse Lessor's royalty to Lessor not later than 120 days from the date Lessee first achieves production and, thereafter, by the last day of the month immediately following the month in which production was achieved; provided however, Lessee may accumulate funds payable to Lessor for up to Twelve (12) months if the total amount is Twenty-Five and no/100 Dollars (\$25.00) or less. Lessee at its option may discharge any tax, mortgage or other lien upon the Lease Premises, and in the event Lessee does so, Lessee shall be subrogated to the lien with the right to satisfy same out of royalties accruing hereunder.

#### 4. Pooling Rights.

Lessee may at any time and from time to time, and upon prior written notice to and written consent from Lessor, as to any one or more stratum or strata, pool and unitize the Lease Premises or any portion thereof with other land(s) or lease(s) in the immediate vicinity of the Lease Premises in order to form, or from time to time re-form, either before or after operations are commenced, an oil or gas well or wells is completed, or production is obtained, a unit or units not to exceed Forty (40) acres for oil and Three Hundred and Twenty (320) acres for gas; provided, however, if units larger than the foregoing are permitted or prescribed by the rules or regulations of the Railroad Commission of Texas, or other lawful authority having jurisdiction of such matters, for the drilling or operation of a well at a regular location or for obtaining maximum allowable from any well to be drilled or already drilled, then any such unit may be established or enlarged to conform to the size allowed by such rules or regulations. Notwithstanding anything to the contrary stated herein, a unit for a horizontal well may include (i) the amount of acreage allowed for obtaining a permit to drill a well under the spacing and density provisions in the applicable field or statewide rules for a vertical wellbore, plus the additional acreage listed in the tables in Rule 86, or (ii) the amount of acreage allowed for obtaining a full production allowable under the applicable field or statewide rules for a vertical wellbore, plus the additional acreage listed in the tables in Rule 86. The units formed by pooling as to any stratum or strata need not conform in size or area with the unit or units into which the Lease is pooled or combined as to any other strata or stratum. No pooling or unitization shall be effective unless Lessee executes and places of record in the county in which the Lease Premises is located a written instrument or instruments designating the unit or units it has elected to form. Lessee shall promptly send to Lessor a true and correct copy of each recorded instrument. Each unit shall be effective as to all parties hereto, their heirs, successors and assigns, irrespective of whether or not the unit is likewise effective as to all other owners of surface, mineral, royalty or other rights in land included in such unit. Production or operations on any part of the pooled unit or units shall be treated for all purposes, except the payment of royalty, as production or operations on the Lease Premises, whether or not the well or wells are located on the Lease Premises. The entire acreage constituting such unit or units shall be treated, except for the payment of royalties on production from the pooled unit, as if it were included in this Lease. For the purpose of computing royalties to which owners of royalties and payments out of production and each of them shall be entitled on production of oil and gas from each pooled unit, there shall be allocated to the Land covered by this Lease and included in said unit (or to each separate tract within the unit if this Lease covers separate tracts within the unit) a pro rata portion of the oil or gas produced from the unit after deducting that used for operations on the unit. Such allocation shall be on an acreage basis – that is, there shall be allocated to the acreage covered by this Lease and included in the pooled unit (or to each separate tract within the unit if this Lease covers separate tracts within the unit) that pro rata portion of the oil or gas produced from the unit which the number of surface acres covered by this Lease (or in each separate tract) and included in the unit bears to the total number of surface acres included in the unit. As used in this paragraph, "separate tract" means any tract with royalty ownership differing, now or hereafter, whether as to parties or amounts, from that as to any other part of the Lease Premises.

#### 5. Use of Water.

If Lessee drills a water supply well, or wells, on the Lease Premises or lands pooled

therewith, Lessee will have free use of the water therefrom for Lessee's operations. Lessee agrees that at the termination of the Lease, Lessee will cap and abandon such water supply well or wells unless Lessor expressly requests Lessee to surrender the water well or wells to Lessor "as is" and free of cost, in which case Lessor shall thereafter release, indemnify, defend and hold Lessee harmless from any liability arising from the subsequent use, operation or maintenance of such well or wells. Lessee shall not have the use of water from Lessor's existing lakes, ponds or stock tanks, without prior written consent of Lessor.

**6. Surface Operations and Damages.**

**(a) Drilling Sites.**

**[Lessee may not under any circumstances enter upon the surface of the Lease Premises for any purpose whatsoever, other than seismic, and Lessee's use of the Lease Premises shall be limited to the pooling thereof] [TO BE DISCUSSED – due to present and future surface use as a residential housing community, all wells affecting the Leased Premises should be drilled horizontally from sites adjacent to the Leased Premises, and not directly on the Leased Premises. Similarly, roads, surface pipelines, wellhead equipment, etc. should not be located on the Leased Premises or within a certain distance of structures located on the Leased Premises]**

- (1) Any location for a well shall be no closer than Three Hundred Fifty feet (350') from any existing residential structure or like improvement on the Lease Premises, and shall be in a location least likely to interfere with any use or surface development of the Lease Premises for home sites or other commercial development. Lessee shall provide to Lessor at least Twenty (20) days written notice of a specified drillsite, before commencing operations thereon, together with a designation of any proposed route, or routes, for production pipelines or flowlines to be connected to any producing well, or wells, on the site. In the event Lessor, within Ten (10) days after receiving such notice, provides to Lessee a written objection to such drillsite location, Lessor and Lessee shall jointly confer upon a drillsite location to be approved by Lessor which approval shall not be unreasonably withheld by Lessor. In the event Lessor fails to approve of an alternate drillsite location within Twenty (20) days following Lessor's written objection, Lessee may commence operations on the original drillsite specified by Lessee.
- (2) Lessee shall use as small an area as is reasonably possible for prudent operations for drilling, completion, production and/or reworking operations, which shall have a maximum surface area of Five (5) acres ("Drillsite"), and shall be downsized within One Hundred Eighty (180) days after the end of the drilling and completion or reworking operations, unless an extension is approved in writing by Lessor, to an amount of acreage necessary to maintain safe operations and maintain security, but not less than Two (2) acres. If multiple wells are drilled from a single Drillsite, the Drillsite may include up to an additional One (1) acre for each well drilled after the initial well. After the end of the 180-day period, as specified above, the Drillsite shall be downsized as set forth in this subparagraph.

**(b) Off-Site Drilling.**

In addition to the other rights granted to Lessee hereunder, Lessor grants to Lessee the right to drill in, under, and through the Lease Premises to recover oil, gas, or other liquid and gaseous hydrocarbons from lands covered by this Lease and lands not covered by this Lease and not pooled with any lands covered by this Lease (hereinafter referred to as an "Off-Site Well").

**(c) Roads and Pipelines.**

Lessee shall provide to Lessor at least Twenty (20) days written notice of any proposed road, or roads, and any proposed pipeline, or pipelines located within Three Hundred and Fifty Feet (350') of the Leased Premises, together with a designation of the proposed routes thereof. In the event Lessor, within Ten (10) days after receiving such notice, provides to Lessee a written objection to such proposed road or pipeline route, Lessor and Lessee shall jointly confer upon a route or routes to be approved by Lessor, which approval shall not be unreasonably withheld by Lessor. In the event Lessor fails to approve of an alternate route or routes, within Twenty (20) days following Lessor's written objection, Lessee may commence construction on the original route or routes

specified by Lessee.

All pipelines will be placed at least Three Hundred and Fifty Feet (350') from residential or commercial structures located on the Lease Premises, in areas of least imminent surface development, and will be buried at least Thirty-Six (36) inches below the surface and backfilled and leveled. All pipelines will be constructed in accordance with governmental laws and regulations. All roads utilized by Lessee will be kept in good repair and appearance at all times by Lessee and will be back dragged and filled as necessary, to ensure passage. Upon Lessor's request, all perimeter gates will be kept closed and locked at all times.

**(d) Production Facilities and Appearance.**

All production facilities, tank batteries, separators, fixtures and other surface equipment shall be kept painted and in good repair and appearance. All production facilities will be fenced, upon Lessor's request, and such fences shall be maintained and kept in good repair at all times. All production facilities fenced shall be with material adequate to turn and prevent harm to livestock. In the event it becomes necessary to cut Lessor's fence or fences, Lessee agrees to properly brace the same prior to cutting and to replace fence or fences in the same condition prior to cutting. Lessee agrees to install in any fence opening an aluminum or other permanent type gate and or cattle guard, and shall deliver to Lessor a key to such gate, or gates.

Lessee shall line all pits sufficient to prevent the leaking of any drilling mud or other fluids into the soil. Lessee is not required to line frac pits containing only fresh water.

All salt water produced from the Lease Premises shall be removed by Lessee from the Lease Premises (or lands pooled therewith), or shall be re-injected into a salt water disposal well, drilled and maintained by Lessee in accordance with all applicable governmental regulations.

Lessee shall take all reasonable and prudent measures to prevent the pollution of the ground surface, surface water and subsurface water on the Lease Premises. Lessee shall notify Lessor of any incident of pollution within Twenty-Four (24) hours of discovery of the same and shall take prompt action to remediate and clear such pollution. Lessee, Lessee's agents, employees, contractors, licensees, etc. shall not litter or permit litter on the Lease Premises (or lands pooled therewith). Lessee shall not store, abandon or otherwise permit to exist on the Lease Premises (or lands pooled therewith) any equipment or supplies not reasonably necessary for current use in permitted operations, nor shall Lessee store, abandon or otherwise permit to exist on the Lease Premises, debris, junk or rubbish.

At Lessor's request, Lessee shall have the right at any time during or within Six (6) months after the expiration of this Lease or the termination of any acreage on the Lease Premises, to remove all property and fixtures placed by Lessee on the Lease Premises (if any), or the terminated acreage of the Lease Premises, as the case may be, including the right to draw and remove all casing. Lessee shall timely plug and abandon all wells which have permanently ceased production, at its sole cost and risk, in accordance with then-current Texas Railroad Commission regulations.

**(e) Damages, Indemnification, Insurance.**

**(1) Surface Damages.**

Lessee agrees to pay to Lessor the reasonable fair market repair or replacement value of the actual damages resulting from Lessee's operations to the Leased Premises, including roads, tanks, and other structures and improvements, livestock, trees and crops on the Lease Premises. Lessee further agrees to restore the surface of the Leased Premises as near as reasonably practical to its original condition after the completion of each operation.

**(2) Indemnification.**

Lessee shall indemnify and hold Lessor harmless from and against any and all claims, costs, damages or causes of action of any kind, including, but not limited

to, attorney's fees and costs, asserted against Lessor for damages to property, or for injury to or death of any person, including but not limited to, the employees of Lessee, its successors, assigns, contractors or subcontractors, which are exclusively caused by Lessee's operations hereunder. As a condition precedent for Lessor's right to enforce this indemnity, Lessor shall notify Lessee in writing of any claim asserted against Lessor within Thirty (30) days after such claim is asserted against Lessor, and Lessor shall provide full details of such claim. Lessee shall have the right at any time to take over the defense of any said claim. In any event Lessor shall keep Lessee fully advised of the status of the claim and no settlement of any claim shall be made without Lessee's prior written consent. These indemnities shall expire upon the earlier of (i) expiration of the applicable statute of limitations or (ii) Two (2) years after termination of this Lease. All indemnities by Lessee hereunder expressly exclude third party beneficiaries.

**(3) Insurance.**

Prior to commencing operations, Lessee shall self-insure or acquire and/or maintain, or cause to be maintained, insurance coverage covering its operations on the Lease Premises, including insurance obtained by contractors, subcontractors, or others for any work performed on its behalf by such contractors, subcontractors, or others. The policies shall include coverage for comprehensive general liability covering bodily injury and property damage, blowout and loss of well coverage, and coverage for pollution liability, including liability coverage for the cost of clean up and surface remediation. The coverage shall be in the minimum amount of Two Million and no/100 Dollars (\$2,000,000). Such Insurance may be met by a combination of private and excess policies.

**7. Force Majeure**

If Lessee, after effort made in good faith, is prevented by Force Majeure from complying with any express or implied covenant of this Lease, from conducting drilling, reworking, or other operations, or from producing oil or gas, then while so prevented, Lessee's obligation to comply with the covenant to conduct drilling, reworking, or other operations, or to produce oil or gas shall be suspended; Lessee shall not be liable in damages for failure to comply therewith, and this Lease shall be extended while and so long as Lessee is so prevented. "Force Majeure" means any act of God, rebellion, riot, war, terrorism, lack of labor, federal or state law, or any rule or regulation of governmental authority, or other similar cause that results in a delay in obtaining or inability to obtain either material, equipment or means of transportation normally necessary in exploring for or drilling for oil and gas, or in producing, handling or transporting same from the Leased Premises (or lands pooled therewith). Nothing contained in this Lease, however, shall be construed to suspend the payment of royalty for reasons arising from an event of Force Majeure, and further provided that this Lease shall in no event be extended under the terms of this paragraph for a period longer than eighteen (18) months.

**8. Assignment.**

The rights of either party hereto shall not be assigned in whole or in part without the express prior written consent of the other party, and upon such permitted assignment, the provisions hereof shall extend to the heirs, successors and assigns of the parties hereto. No change or division in ownership of the Lease Premises, or royalties however accomplished shall operate to enlarge the obligations or diminish the rights of Lessee. No change in ownership shall be binding on Lessee or impair the effectiveness of any payments made hereunder until Lessee has been furnished Thirty (30) days before payment is due, a copy of the recorded instrument or instruments evidencing the transfer, inheritance, sale or other change in ownership. All assignments must require the assignee to assume its proportionate share of Lessee's obligations under this Lease.

**9. Proportionate Reduction.**

It is expressly agreed that if Lessor owns an interest in the oil and gas in, on, and under the Lease Premises less than the entire fee simple estate, whether or not this Lease purports to cover the whole or a fractional interest, the royalties, bonus, overriding royalties and shut-in payments to be paid to Lessor shall be reduced in the proportion that Lessor's interest bears to the whole and undivided fee, and in accordance with the nature of the estate of which Lessor is seized. To the extent any bonus, royalty or other payment attributable to the mineral interest covered by this Lease is paid or payable to someone other than Lessor, such bonus, royalty or

other payment shall be deducted from the corresponding amount otherwise payable to Lessor hereunder. If a title opinion commissioned by Lessee results in a reduction or increase of bonus consideration payable to Lessor, all payments arising from such increase (if any) shall be deemed for all purposes to be paid to Lessor on the date of Lessee's check (in substitution for any pre-delivered draft) which is delivered to Lessor or mailed to Lessor, before its due date, at the last known address given to Lessee by Lessor.



For convenience, this instrument may be executed in multiple counterparts and Lessor and Lessee agree that for recording purposes their respective signature page and acknowledgments may be removed from their respective counterpart and attached to a single Paid-Up Oil and Gas Lease and for all purposes and obligations hereunder this shall be considered as one Paid-Up Oil and Gas Lease.

EXECUTED the date above written.

By Charles E. Gray  
(Individually and in all Capacities for the above described Land)

By: Linda L. Gray  
(Individually and in all Capacities for the above described Land)

Name: CHARLES E. GRAY

Name: LINDA L. GRAY

Title: OWNER

Title: OWNER

ID # \_\_\_\_\_

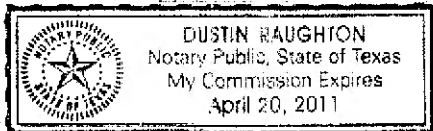
ID # \_\_\_\_\_

Individual Acknowledgment

STATE OF TEXAS §  
COUNTY OF Tarrant §

BEFORE ME, on this day personally appeared Charles E. Gray and wife, Linda Gray known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he/she executed the same for purposes and considerations therein expressed, and in the capacity therein stated.

GIVEN UNDER MY HAND AND SEAL OF OFFICE, this the 7 day of July, 2008.



SEAL:

Notary Public in and for the State of Texas.

Signature of Notary: Dustin Raughton

(Print Name of Notary Here) Dustin Raughton

My Commission Expires: April 20, 2011

Individual Acknowledgment

STATE OF TEXAS §  
COUNTY OF §

BEFORE ME, on this day personally appeared \_\_\_\_\_, known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he/she executed the same for purposes and considerations therein expressed, and in the capacity therein stated.

GIVEN UNDER MY HAND AND SEAL OF OFFICE, this the \_\_\_\_\_ day of \_\_\_\_\_, 2008.

Notary Public in and for the State of Texas.

Signature of Notary: \_\_\_\_\_

(Print Name of Notary Here) \_\_\_\_\_

My Commission Expires: \_\_\_\_\_

SEAL:

Corporate Acknowledgment

STATE OF TEXAS §  
COUNTY OF §

The foregoing instrument was acknowledged before me, on this \_\_\_\_\_ day of \_\_\_\_\_, 2008, by \_\_\_\_\_ of \_\_\_\_\_, a \_\_\_\_\_ corporation, on behalf of said corporation.

GIVEN UNDER MY HAND AND SEAL OF OFFICE, this the day and year last above written.

Notary Public in and for the State of Texas.

Signature of Notary: \_\_\_\_\_

(Print Name of Notary Here) \_\_\_\_\_

My Commission Expires: \_\_\_\_\_

SEAL:

### Addendum to Oil and Gas Lease

1. Upon written request, Circle Energy, as Lessee of the Lease, or such other company acting as operator of the Lease, shall provide Lessor with copies of all reports relating to the Lease Premises filed with the Railroad Commission of Texas within Thirty (30) days of such request.
2. Lessor shall allow and permit Lessee to conduct seismic operations on the Lease Premises, provided that such seismic operations do not interfere, in Lessor's opinion, with the surface use of the Lease Premises, and agrees to sign a seismic permit when requested by Lessee. If Lessee conducts a seismic survey, Lessee agrees to pay Lessor, if Lessor is the owner of the surface estate, Five and no/100 Dollars (\$5.00) per acre for having granted in advance the right for Lessee to conduct seismic operations on, over and across the surface of the Lease Premises. The amount paid for this consent does not include any payments which may be due Lessor, as the surface estate owner, for extraordinary damages not known on this date.
3. This lease is executed without warranty either express or implied, in law or in equity. Lessor agrees that Lessee at its option may discharge any tax, mortgage, or other lien upon said land, either in whole or in part, and in the event Lessee does so, it shall be subrogated to such lien with right to enforce same and apply royalties accruing hereunder toward satisfying same.
4. Lessee shall conduct Lessee's operations in strict compliance with all of the terms and provisions of this Lease, and with all applicable local, state and federal rules and regulations of any regulatory body having jurisdiction over such operations. Lessee shall bear all costs and other burdens of complying with all local, state and federal rules and regulations governing Lessee's operations, including without limitation all costs and burdens associated with obtaining drilling permits and other approvals for those operations.
5. If any royalties that become due hereunder are not paid to Lessor on or before the 30th day of the month immediately following the month in which the proceeds from the sale of said oil or gas are received by Lessee, interest shall be payable to Lessor on the amount of such unpaid royalty at the rate of fifteen percent (15%) per annum accruing from said date until paid. Nothing in the preceding sentence is, however, intended to waive any rights and remedies to which Lessor may be entitled pursuant to Texas Natural Resources Code, Annotated § 91.401, et seq. (the "Payment Statute"). Without limiting the foregoing, the time for payment of royalties shall be no later than the time for payment provided in the Payment Statute.
6. Time is of the essence with respect to the performance by either party of the duties and obligations set forth herein.
7. Headings of sections and paragraphs are included in this instrument for convenience of reference and shall in no way define, limit, extend or describe the scope or intent of any provision hereof. Titles appearing at the beginning of any of such subdivisions are for convenience only and shall not constitute part of such subdivisions and shall be disregarded in construing the language contained in such subdivisions.
8. All the covenants and agreements of Lessee herein contained shall be deemed to be covenants running with Lessee's interest in the leased premises. All of the provisions hereof shall inure to the benefit of Lessor and Lessee and their respective successors and assigns and shall be binding upon Lessor and Lessee and their respective successors and assigns.
9. Except as otherwise expressly provided herein, all notices, information, letters, reports, material and other documents required or permitted to be sent to Lessor by Lessee shall be sent by certified United States mail, postage prepaid, return receipt requested, by fax, by hand delivery or by overnight courier to the following addresses:

PO BOX 584  
KENNEDALE TX 76060

Except as otherwise expressly provided herein, all notices required or permitted to be sent to Lessee by Lessor shall be sent by certified United States mail, postage prepaid, return receipt requested, by fax, by hand delivery, or by overnight courier to the following addresses:

Circle Energy, Inc.  
An Oil and Gas Leasing Company  
2400 N. Hwy 287, Ste 106  
Mansfield, TX 76063

Circle

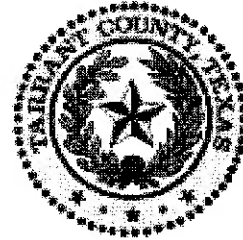
Initial

CEJ LLM

**EXHIBIT "A"**

**Land Description**

Lot twenty (20) in Block(1) of Murry Hill Estates, an Addition to the City of Kennedale, Tarrant County, Texas according to plat recorded in Volume 8739, Page 402;



CIRCLE ENERGY INC  
2400 N HWY 287 STE 106

MANSFIELD TX 76063

Submitter: CIRCLE ENERGY INC

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SUZANNE HENDERSON  
TARRANT COUNTY CLERK  
TARRANT COUNTY COURTHOUSE  
100 WEST WEATHERFORD  
FORT WORTH, TX 76196-0401

**DO NOT DESTROY**  
**WARNING - THIS IS PART OF THE OFFICIAL RECORD.**

Filed For Registration: 07/14/2008 04:02 PM  
Instrument #: D208273558  
LSE 13 PGS \$60.00

By: \_\_\_\_\_



**D208273558**

ANY PROVISION WHICH RESTRICTS THE SALE, RENTAL OR USE  
OF THE DESCRIBED REAL PROPERTY BECAUSE OF COLOR OR  
RACE IS INVALID AND UNENFORCEABLE UNDER FEDERAL LAW.

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